

1Q 2005: START FOR STABLE GROWTH

Ekaterinburg – May 17, 2005 – Uralsvzayinform (RTS: URSI/URSIP) the leading carrier of fixed-line and mobile services in the Urals region, Russia reports the unconsolidated 1Q 2005 financial and operational results under Russian accounting standards (RAS).

- Revenue growth was 18% compared to 1Q 2004 mainly due to the increase in DLD and ILD traffic, rise in local tariffs, and growth of fixed-line and GSM subscriber bases;
- EBITDA increased by 21% vs 1Q 2005, EBITDA margin was 37%;
- Net profit increased by 15%, net margin remained at 9%;
- Fixed-line segment delivered 20% revenue growth;
- Mobile revenues increased by 30%;
- Long-distance revenues increased by 12%;
- Total subscriber number reached 5.8 mln, including 2.4 mln GSM subscribers;
- As of April 14, 2005 Standard & Poor's, an international rating agency, upgraded Uralsvzayinform credit rating from B to B+/Stable;
- As of April 21, 2005 Uralsvzayinform placed its 05-series bond issue (non-convertible interest-bearing documentary bearer bonds). Total nominal value is RUR 2.0 bln. The auction fixed the coupon rate at 9.19% p.a. Effective YTM is 9.40% p.a. The issue was placed in full during the auction;
- As of April 25, 2005 Fitch Ratings affirmed its credit rating of Uralsvzayinform at BB-/Stable.

Operational and financial highlights:

	2004	2003	Change, %
<i>Financial</i>			
Revenues, RUR mln.	6 543,8	5 524,3	+18%
Costs, RUR mln	4 809,7	4 067,4	+18%
EBITDA, RUR mln	2 396,2	1 979,0	+21%
EBITDA margin	37%	36%	-
Operating profit, RUR mln	1 734,2	1 456,9	+19%
Operating margin	27%	26%	-
Pre-tax profit, RUR mln	819,2	758,8	+8%
Net profit, RUR mln	563,5	537,4	+5%
Net margin	9%	10%	-
<i>Operational</i>			
Subscriber base:			
Fixed-line subscribers, mln	3,4	3,2	+7%
Mobile (GSM) subscribers, mln*	2,4	1,3	x1,8
Digitalization of local fixed-line networks, %	65,9	61,2	-
Penetration:			
Fixed lines, %	23,4	21,8	-
Mobile, %	53,8	22,0	-

Number of employees by segments of business:			
Fixed line services, thous.	33,4	35,3	-5%
Mobile services, thous.*	1,3	1,1	+18%

* Including subsidiary businesses

Anatoly Ufimkin, CEO commented the results of the quarter: *“The successful start to the year comes in line with our expectations. Although, the growth rates in revenue terms decreased significantly from 31% in the last year to 18% in 1Q 2005, we were able to preserve the outpacing rates for revenue compared to the costs as we implement the costs optimization program. As a result, EBITDA margin increased to 37%, one of the highest indicators within the industry.*

However, we recognize that the growth in the “traditional” segments is somewhat slowing, and we trust that the below should address the issue: first, cost optimization through optimization of staff and reduction of network-related operating costs; second, development of value-added services.

In 2004, Uralsvyazinform initiated a major Russian NGN project (next generation networks).

On May 13, 2005 Uralsvyazinform was the first to present a beta project of NGN-based networks in Chelyabinsk, using the equipment and solutions provided by Nortel. The project integrates each component of an up-to-date telecommunication infrastructure (backbone packet-switched network, SoftSwitch, multimedia servers) into the existing fixed-line urban network in Chelyabinsk.

The switchover toward NGN technology is seen as the future of the company’s fixed-line networks. The next generation networks, based on packet-switched technology should fully replace the existing channel-switched networks. By the end of 2007, our network should be capable of transferring any type of traffic (voice, data, and video) in a single stream regardless its volume.

We have also continued the consolidation of fixed-line and mobile businesses, and trust that the benefits of the consolidation should add up to preserve our leading position in the regional fixed-line and mobile markets, as well as optimize costs and boost efficiency. The first stage of the consolidation should be completed by the end of the 2Q 2005. At the EGM of March 31, 2005 the shareholders approved the merger of ZAO “Ermak RMS”, OOO “South Urals Cellular Phone”, OOO “Tyumenruscom” (mobile operators), and OOO “Uralcom”, ZAO “VSNET” (Internet providers) with and into Uralsvyazinform. The mobile assets constitute a basis for a single inter-regional mobile division, covering the whole service territory under a single license and brand. Data transmission assets will be consolidated with corresponding regional divisions of Uralsvyazinform.

Generally, we trust that our strategy proved consistent, and our mid-term goals will be achieved”.

Complete accounting statements of Uralsvyazinform as of 2004 may be found on the corporate web-site at www.uralsviazinform.com.

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The most recent company information is also available at www.uralsviazinform.com or URSI_RU page in Bloomberg system.

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OVERVIEW OF BUSINESS

Local services

	01.01.2005	01.01.2004	Change, %
	3 779,7	3 591,6	+5%
Capacity installed, '000 lines	31.03.2005	31.03.2004	Change, %
Subscribers' 000	3 422,8	3 211,0	+7%
<i>including</i>			
Residents	2 946,0	2 759,1	+7%
Organizations	476,8	451,9	+6%
Digitalization of urban networks, %	70,3	65,9	-
Digitalization of rural networks, %	30,7	21,1	-

The growth of fixed-line subscriber base over 1Q 2005 totaled 38.5 thous.

Revenues from local services were RUR 2 255.5 mln, a 20.1% up on 1Q 2004. Revenues from monthly rentals grew by RUR 396.7 mln, driven by the growth of subscriber base (RUR 82.1 mln), and growth of average rates (RUR 314.6 mln). Growing average rates were supported by the increase of local tariffs as of Sept 1, 2004 by an average 24%. Revenues from other local services decreased by RUR 18.7 mln compared to 1Q 2004 mainly due to lower revenues from installations. Operating profit to costs ratio in the segment was 16%.

The revenues from local services by client categories:

- residents – 65.7% (67.6% as of 1Q 2004),
- organizations – 34.3% (32.4% as of 1Q 2004).

The revenues from local services by types of services, including radio access (CDMA, DECT):

Line installation	10.7%
Monthly rentals	69.4%
Per-minute payments (Time-billed calls)	2.0%
Other local services (contracts redrawn etc)	5.5%
Interconnection of third-party operators	8.3%
Line and cabling rentals	3.6%
Payphone calls	0.5%

Internet

	1Q 2005	1Q 2004	Change, %
Traffic, '000 min	344 733,0	223 331,0	+54,4%
Traffic, Gb	98 799,2	55 817,2	+77,0%
Revenues from Internet, RUR thous.	191 160,9	122 573,4	+56,0%

DLD/ILD telephony

Outgoing traffic, mln min	2004	2003	Change, %
Total, including	686,4	592,4	+15,9%
Domestic	650,3	560,5	+16,0%
International	36,2	31,9	+13,4%

Revenues from long-distance services increased by 11.9% as compared to 1Q 2004 and totaled RUR 2 582.4 mln. Operating profit to costs ratio in the segment was 61%.

Revenue structure of long-distance services, by client categories:

Residents – 45.7% (49.1% as of 1Q 2004),

Organizations – 50.9% (54.3%).

The decrease of long-distance tariffs in the intra-zone segment by 5% on average translated into the decrease of the average per-minute rates – from RUR 3.0 in 1Q 2004 to RUR 2.8 in 1Q 2005. The average rate per one minute of ILD calls totaled RUR 10.4 (down 5% on 1Q 2004).

The intra-zone long-distance lines (in extension terms) were 70.1% digitalized as of Jan 1, 2005 (compared to 56.2% as of Jan 1, 2004).

Mobile GSM telephony

	01.01.2005	01.01.2004	Change, %
Uralsvyazinform (Perm region)			
Subscribers	701 512	385 414	+82%
Uralsvyazinform (Sverdlovsk region)			
Subscribers	102 100	-	-
Ermak RMS (Tyumen region, including Khanty-Mansyisk and Yamalo-Nenetski ADs)			
Subscribers	838 332	407 921	x 2.1
South Urals Cellular Phone (Chelyabinsk and Kurgan regions)			
Subscribers	715 622	501 308	+43%

The financial statements of Uralsvyazinform as presented under Russian accounting standards incorporate solely the results of the company's divisions, which provide mobile services on the territory of Perm and Sverdlovsk regions. The results of the two subsidiary mobile operators – Ermak RMS and South Urals Cellular Phone where Uralsvyazinform holds 100% stakes are only consolidated under International Accounting Standards (IAS). The statements presented here and henceforth with regard to mobile business, shall be therefore regarded as statements that do not consolidate results of subsidiary businesses and reflect exclusively the metrics of the company's divisions acting on the territory of Perm and Sverdlovsk regions.

The revenues generated by mobile business in 1Q 2005 were RUR 506 mln, a 30.8% up on 1Q 2004. The main catalyst to the revenue growth was x2.1 growth in the subscriber number in Perm and Sverdlovsk regions compared to 1Q 2004 (803.4 thous. as of 01.04.2005). The segment's operating profit to costs ratio as of 2004 was 27.5%.

Value-added services (SMS, MMS, GPRS) contribute approx. 11% to the overall revenues from mobile services.

The company retained about 30% of the mobile market in the Urals region. Since September 28, 2004 Uralsvyazinform started its GSM900/1800 mobile services in Sverdlovsk region and Ekaterinburg, where its market share is currently about 5%. Together with its subsidiaries Uralsvyazinform had 2.50 mln subscribers as of May 1, 2005. The subscriber growth for the 4 months of 2005 amounted to 23%.

REVENUES AND EXPENSES REVIEW

Generally, the company's revenues in 1Q 2005 totaled RUR 6 543.8 mln. (up 18.5% on 1Q 2004), where revenues from telecommunications were RUR 5 784.4 mln (+17.7%).

The structure of revenues from telecommunications services in 2004, RUR thous.

<i>Items</i>	2004	<i>Share in the revenues</i>	2003	<i>Share in the revenues</i>
Revenues from telecommunications services, including	5 784 368	100,0%	4 912 818	100,0%
Domestic long-distance services	2 204 557	38,1%	1 959 207	39,9%
International long-distance services	377 830	6,5%	348 718	7,1%
Telegraph, telefax services	78 406	1,4%	83 560	1,7%
Local urban services	2 067 184	35,7%	1 733 039	35,3%
Local rural services	188 281	3,3%	144 388	2,9%
Radio communication, radio and TV broadcasting, satellite communications	37 052	0,6%	28 890	0,6%
Wired radio	75 887	1,3%	73 242	1,5%
Mobile services and paging	508 486	8,8%	391 461	8,0%
New services	246 687	4,3%	150 313	3,1%
<i>incl. Internet</i>	<i>191 161</i>	<i>3,3%</i>	<i>122 573</i>	<i>2,5%</i>

Operating expenses amounted to RUR 4 809.7 mln. (up 18.2% as compared to 1Q 2004).

The expenditure structure is as follows, RUR thousand:

<i>Item</i>	1Q 2005	<i>Share in expenses</i>	1Q 2004	<i>Share in expenses</i>
Depreciation	662 325,9	13,8%	522 144,2	12,8%
Wages	1 447 175,6	30,1%	1 197 675,0	29,4%
Social tax expense	354 154,7	7,3%	385 542,5	9,4%
Rental expenses	79 430,3	1,7%	55 733,2	1,4%
Rostelecom interconnect fee	772 334,9	16,1%	679 410,7	16,7%
Other operators' services	196 424,6	4,1%	152 190,5	3,7%
Gossvyaznadzor	235 730,3	4,9%	230 482,2	5,7%
Materials	78 503,4	1,6%	60 247,3	1,5%
Leasing repayments	7 774,8	0,2%	15 280,5	0,4%
Taxes and deductions included in expenses on main operations	601 829,9	12,5%	442 750,0	10,9%
Third party services, including	108 652,9	2,3%	115 759,4	2,8%
<i>Repairs and maintenance</i>	<i>69 246,5</i>	<i>1,4%</i>	<i>59 914,9</i>	<i>1,5%</i>
<i>Power and electricity</i>	<i>52 530,5</i>	<i>1,1%</i>	<i>45 651,8</i>	<i>1,1%</i>
<i>Heat power</i>	<i>8 307,9</i>	<i>0,2%</i>	<i>7 615,5</i>	<i>0,2%</i>
<i>Other utilities</i>	<i>11 394,6</i>	<i>0,2%</i>	<i>16 306,9</i>	<i>0,4%</i>
<i>Labor costs</i>	<i>8 261,1</i>	<i>0,2%</i>	<i>8 712,1</i>	<i>0,2%</i>
<i>Transport</i>	<i>92 298,1</i>	<i>1,9%</i>	<i>70 693,5</i>	<i>1,7%</i>
<i>Security</i>	<i>34 726,1</i>	<i>0,7%</i>	<i>22 924,6</i>	<i>0,6%</i>
<i>Consulting, information and audit services</i>	<i>216 412,2</i>	<i>4,5%</i>	<i>95 171,4</i>	<i>2,3%</i>

<i>Agent commissions</i>	376 793,9	7,8%	327 864,7	8,1%
Other expenses	4 809 677,8	100,0%	4 067 445,8	100,0%
TOTAL	662 325,9	13,8%	522 144,2	12,8%

The growth of expenses on services of other operators reflects the growing use of Internet services.

The increase of Agent commissions is due to the growth of sales of mobile contracts by the dealers.

The increase of the amount of short-term and long-term debt (credits and loans) by 50.2% as compared to 1Q 2004, which totaled RUR 16.2 bln as of Apr 1, 2005, translated into higher interests, which increased by 36.5%. The overall debt has increased by RUR 1.0 bln over the 1st quarter of 2005 (up 6.8%).

Generally, as of 1Q 2005 EBITDA amounted to RUR 2.4 bln (up 21.1%), operating profit – RUR 1.7 bln, (up 19.0%), pre-tax profit – RUR 0.82 bln (up 8.0%), net profit – RUR 0.56 bln (up 4.9%).

INVESTMENTS

The investments as of 1Q 2005 totaled RUR 927.4 mln (up 56.5% on 1Q 2004).

The investment structure by segments of business is as follows, RUR mln.:

	<i>1Q 2005</i>	<i>Share in total investments</i>	<i>1Q 2004</i>	<i>Share in total investments</i>
Local telephony	397 353,3	42,8%	226 857,4	38,3%
Mobile telephony	235 882,4	25,4%	190 701,2	32,2%
ILD/DLD telephony	103 742,0	11,2%	60 094,6	10,1%
New services	111 671,0	12,0%	17 236,0	2,9%
Other	78 760,9	8,5%	97 619,8	16,5%
Total	927 409,6	100,0%	592 509,0	100,0%